

## Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-01 INR-07

L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 COME-00 EB-08 LAB-04 SIL-01 AID-05 PC-01

OMB-01 TRSE-00 /076 W

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R 110745Z APR 77

FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 842

INFO AMEMBASSY NEW DELHI

AMCONSUL KARACHI

AMCONSUL LAHORE

LIMITED OFFICIAL USE ISLAMABAD 3470

E.O. 11652: N/A

TAGS: ECON, PK

SUBJ: ECONOMIC IMPACT OF ELECTION DISTURBANCES

SUMMARY: THE ELECTION CAMPAIGN AND ESPECIALLY POST-ELECTION PERIOD (SINCE MARCH 7) HAVE DISRUPTED ECONOMIC ACTIVITY IN PAKISTAN. THE POST-ELECTION DISTURBANCES IN KARACHI, THE COUNTRY'S ONLY PORT AND MAIN INDUSTRIAL CENTER, HAVE BEEN PARTICULARLY IMPORTANT IN THIS REGARD. VERY TENTATIVE ESTIMATES OF THE POSSIBLE COST THROUGH LOST PRODUCTION TIME, ARSON, AND TRANSPORTATION PROBLEMS CLUSTER AROUND A FIGURE OF 1/2 OF 1 PERCENT OF NOMINAL GNP THUS FAR. IF THE SITUATION REMAINS NORMAL IN KARACHI SOME OF THIS LOSS MAY BE MADE UP, BUT IF DISTURBANCES ARE PROLONGED THE EVENTUAL COST COULD BE HIGHER. ALMOST UNQUANTIFIABLE, BUT NONETHELESS SIGNIFICANT, WILL BE THE LOSS IN FORWARD MOMENTUM AND THE DELAYS IN DECISION-MAKING AS THE ATTENTION OF TOP OFFICIALS WAS FOCUSED ON POLITICAL ISSUES. POST-ELECTION EVENTS MAY ALSO HAVE SOME INFLATIONARY IMPACT. THIS REPORT DRAWS HEAVILY ON A CONTRIBUTION BY CONGEN KARACHI. END SUMMARY.

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1. PRODUCTION LOSSES: THE GREATEST LOSS IN PRODUCTION HAS BEEN IN THE KARACHI AREA. CONGEN KARACHI REPORTS THAT THERE IS A WIDELY SHARED ESTIMATE THAT INDUSTRIAL PRODUCTION IN THE LEADING AREAS WAS ON THE AVERAGE 30 PERCENT OF "NORMAL" DURING THE EVENTS OF MARCH 11 THROUGH THE END OF MARCH. CONTINUOUS PROCESS FIRMS, WITH THREE SHIFTS A DAY, HAD THE

GREATEST PROBLEMS DURING THE CURFEW AND TROUBLED PERIODS WORK CAME TO A COMPLETE STANDSTILL ON ONLY THREE DAYS -- MARCH 11, 19 AND 21 -- BUT MANAGED TO LIMP ALONG THE REST OF THE TIME.

2. CONGEN KARACHI ESTIMATES, AND WE AGREE, THAT THE IMPACT ON THE COTTON TEXTILE INDUSTRY MAY NOT BE TOO SERIOUS GIVEN THE FACT THAT BECAUSE OF THE POOR COTTON CROP, MANY OF THE FACTORIES WERE ALREADY RUNNING WELL BELOW CAPACITY AND CAN CATCH UP READILY.

3. THE KARACHI DAILY BUSINESS RECORDER, REPEATING WHAT WE HAVE BEEN TOLD IS AN ESTIMATE PREPARED FOR THE CITIBANK MONTHLY ECONOMIC NEWSLETTER, ALSO CONFIRMS OUR IMPRESSION THAT THERE HAD BEEN SOME GENERAL SLOWDOWN IN MANUFACTURING AND CONSTRUCTION AND ACTIVITY THROUGHOUT THE ELECTION CAMPAIGN. HOW SERIOUS THIS IS IN THE LONGER TERM WILL DEPEND ON HOW SOON THE SITUATION FULLY NORMALIZES, ESPECIALLY IN KARACHI.

4. TRANSPORT: THE POST-ELECTION DISTURBANCES IN KARACHI CAUSED SEVERE DISLOCATION IN TRANSPORT IN THE SECOND HALF OF MARCH. CONGEN KARACHI REPORTS THAT OPERATIONS AT THE PORT OF KARACHI WERE DOWN TO 70 PERCENT OF NORMAL VOLUME IN THIS PERIOD. THE PORT WAS VIRTUALLY CLOSED MARCH 21 AND WAS CLOSED MARCH 26. NORMALLY, THERE ARE ABOUT 32 SHIPS SITTING OFF THE PORT BUT IN THE LAST TWO WEEKS IN MARCH THE AVERAGE ROSE TO 42. MANY OF THE PORT WORKERS LIVE IN THE CURFEWED AREAS AND THERE HAS BEEN A SHORTAGE OF TRUCK AND RAIL TRANSPORT ADDED TO THE PERENNIAL PROBLEM OF KARACHI MERCHANTS NOT LIFTING THEIR GOODS ON TIME. SOURCES IN ISLAMABAD PUT IT LIMITED OFFICIAL USE

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EVEN MORE STRONGLY, ASSERTING THAT DURING THE PERIOD OF DAYTIME CURFEWS IN KARACHI, TRUCKERS WERE UNWILLING TO RISK GOING INTO KARCHI AT ALL (LET ALONE TO THE PORT AREA) AND THAT AS A RESULT ALMOST NOTHING MOVED BETWEEN KARACHI AND THE REST OF THE COUNTRY.

5. WE ALSO UNDERSTAND THAT THE HARTALS (GENERAL STRIKES) IN VARIOUS PARTS OF THE COUNTRY DISRUPTED LOCAL SUPPLY LINES AND CAUSED OCCASIONALLY SEVERE PRICE INCREASES FOR KEY FOOD ITEMS IN A NUMBER OF PLACES. WHETHER THESE WILL FEED THE INFLATIONARY PRESSURES ALREADY PRESENT IN THE ECONOMY DEPENDS ON THE EXTENT AND SEVERITY OF ANY FUTURE HARTALS AND CIVIL DISTURBANCES. THE FACT THAT WORKERS HAVE GENERALLY BEEN PAID AT LEAST HALF THEIR SALARIES, AND MORE OFTEN FULL SALARIES, WHILE INDUSTRIAL PLANTS HAVE BEEN OPERATING AT VERY LOW LEVELS, IS ALSO LIKELY TO HAVE SOME INFLATIONARY IMPACT. WE ESTIMATE THAT THE BALANCE OF PAYMENTS EFFECT OF THE DISTURBANCES HAS BEEN MINIMAL: THE TEMPORARY DISRUPTION OF EXPORTS WAS BALANCED BY THE SLOW DOWN IN IMPORTS.

6. UNQUANTIFIABLE BUT ALSO SIGNIFICANT WILL BE THE EFFECT OF THE SENSE OF DRIFT CREATED DURING THE PERIOD SINCE JANUARY WHEN SENIOR OFFICIALS HAVE BEEN PREOCCUPIED ALMOST ENTIRELY WITH POLITICS. DURING THE ELECTION CAMPAIGN WE FOUND IT DIFFICULT TO GET ANY BUSINESS DONE WHICH REQUIRED THE ATTENTION OF HIGH-LEVEL OFFICIALS.

7. ANY ATTEMPT TO QUANTIFY THESE ECONOMIC LOSSES IS OF COURSE HIGHLY SPECULATIVE. CONGEN KARACHI AND THE LOCAL PRESS REPORT A NUMBER OF ESTIMATES OF THE LOSS INCURRED THUS FAR WHICH CLUSTER AROUND A FIGURE OF PERHAPS 1/2 TO 1 PERCENT OF NOMINAL GNP (\$75 - \$150 MILLION). THE CORRESPONDING REDUCTION IN REAL GNP GROWTH WOULD OF COURSE BE LOWER (PERHAPS 0.15 - 0.3 PERCENT).  
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## Message Attributes

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